

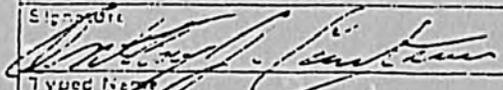
PROJECT EVALUATION SUMMARY (PES) - PART I

1. PROJECT TITLE Small Farmer Coffee Improvement			2. PROJECT NUMBER 522-0176	3. MISSION/AID/W OFFICE USAID/Honduras
5. KEY PROJECT IMPLEMENTATION DATES			4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY)	
A. Firm PRO-AG or Equivalent FY <u>81</u>	B. Final Obligation Expected FY <u>85</u>	C. Final Input Delivery FY <u>86</u>	<input checked="" type="checkbox"/> REGULAR EVALUATION <input type="checkbox"/> SPECIAL EVALUATION 7. PERIOD COVERED BY EVALUATION From (month/yr.) <u>6/81</u> To (month/yr.) <u>1/84</u> Date of Evaluation Review <u>2/84</u>	
6. ESTIMATED PROJECT FUNDING				
A. Total \$ <u>14,230,000</u>				
B. U.S. \$ <u>9,550,000</u>				

B. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. Ltr: decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
8.1. Conditions Precedent and Covenants		
1.1. The Critical Path Method used to monitor project activities is insufficient. A formal evaluation program for the project needs to be instituted.	J. Jordan, AG	10/84
1.2. Gather baseline data from new project participants to measure project impact and complement area profiles with detailed case studies.	J. Jordan, AG	1/85
1.3. Reduce the time required for processing the request of funds at all levels.	J. Jordan, AG	Completed, 4/84
8.2. Institutional Development		
2.1. IHCAFE should study the possibility of getting a micro-computer to improve its data management system with respect to credit flows and types of loans.	J. Jordan, AG	8/84

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS			10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT		
<input type="checkbox"/> Project Paper	<input type="checkbox"/> Implementation Plan e.g., CPI Network	<input checked="" type="checkbox"/> Other (Specify) <u>Project 522-0230 ESF</u>	A. <input type="checkbox"/> Continue Project Without Change		
<input type="checkbox"/> Financial Plan	<input type="checkbox"/> PIO/T		B. <input type="checkbox"/> Change Project Design and/or		
<input type="checkbox"/> Logical Framework	<input type="checkbox"/> PIO/C		<input checked="" type="checkbox"/> Change Implementation Plan		
<input checked="" type="checkbox"/> Project Agreement	<input type="checkbox"/> PIO/P		C. <input type="checkbox"/> Discontinue Project		

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)		12. Mission/AID/W Office Director Approval	
Ronald Tinnermeir and Charles Oberbeck, Evaluators, Experience Incorporated Jorge Hernan Echeverri, Evaluator, PROMECAFE Roberto Banegas, IHCAFE John Jordan and Orlando Hernandez, USAID/Honduras		Signature:  Typed Name: Anthony J. Cauterucci Date: 7/26/84	

	Name of Officer Responsible for Action	Date Action to be Completed
2.2. The Central Bank should speed up the reimbursement process for participating banks and reduce the costs of lending.	J. Jordan, AG	Completed, 5/84
2.3. Clarify the handling of capital reflows. If possible, the holding of these funds for relending to project beneficiaries should be a responsibility of the participating banks.	J. Jordan, AG	8/84
2.4. Make a decision on the workplan to be implemented by the communications advisor, name his counterpart and extend his contract for at least one year after this counterpart is named.	J. Jordan, AG	Completed, 7/84
2.5. Decide who will continue performing the functions previously assigned to the foreign extension advisor that departed at the beginning of CY 84.	J. Jordan, AG	Completed, 2/84
2.6. The distribution of the interest rate charged the coffee producer by the Project should be discussed. Participating banks are receiving a large subsidy since IHCAFE and cooperatives are doing a substantial amount of the credit processing for them.	J. Jordan, AG	8/84
2.7. Additional private banks and offices should continue to be encouraged to enter the Project to further provide improved credit access to beneficiaries.	J. Jordan, AG	On-going
<u>8.3. Extension Activities</u>		
3.1. Use ESF to hire (a) part-time secretaries during peak periods and (b) the new extension agents that the envisioned project expansion may require.	J. Jordan, AG	Completed, 6/84
3.2. Although extensionists should continue to be trained in coffee culture and extension methods, emphasis needs to be given to farm and financial management, production economics and group techniques.	J. Jordan, AG	On-going

	Name of Officer Responsible for Action	Date Action to be Completed
3.3. Improve the present extension system by:	J. Jordan	
(a) placing borrowers in categories according to their need for supervision;	AG and F. Astacio, IHCAFE	8/84
(b) emphasizing group work, the use of para-professionals, test plots on farmers fields and local demonstration plots;		On-going
(c) providing financial management training to farmers; and		On-going
(d) providing follow-up training through alternative media such as radio, video-tape, slides and pamphlets.		On-going
3.4. Study the feasibility of shifting some of IHCAFE's coffee diversification research work to the small farm coffee producing areas.	J. Jordan AG	9/84

8.4. Credit Activities

4.1. IHCAFE should develop a proposed schedule for loan processing which will help spread out the bank loan request and processing loads.	J. Jordan AG and F. Astacio, IHCAFE	9/84
4.2. Immediate procedures should be implemented within IHCAFE to reduce the excessive paper work associated with loan processing. IHCAFE	J. Jordan, AG and F. Astacio,	Completed, 3/84
4.3. Since a large portion of the agents' time is spent on credit and technical assistance activities, introduce methods to allow them to effectively work with a larger number of farmers at lower cost per borrower.	J. Jordan, AG	8/84
4.4. IHCAFE should study the possible re-locating some of the field staff to reduce the non-productive time on the road between farm visits.	J. Jordan, AG	Completed, 4/84
4.5. A list of potential borrowers should be sent or discussed with the banks before beginning other loan processing activities to avoid spending a lot of time with a farmer who is later determined ineligible for a loan.	J. Jordan, AG and F. Astacio, IHCAFE	Completed, 6/84

	Name of Officer Responsible for Action	.Date Action to be Completed
4.6. All extension agents should be encouraged to maintain a summary sheet on loan balances and other pertinent information on their clients so they are more informed for their farm visits.	J. Jordan, AG and F. Astacio, IHCAFE	Completed, 5/84
4.7. Extension and credit agents need to be made continually aware in training sessions and by administrative directives that borrower repayment is critical to the longer-term success of the project. In turn, the agents should be asked to pass this message to the borrowers. However, at no time should they directly receive loan repayments.	J. Jordan, AG	Completed, 4/84
4.8. Strengthen the monitoring of delinquency and the gathering of arrears data.	J. Jordan, AG	9/84
4.9. Present repayment schedules should be analyzed and made more consistent with harvest times and expected income flows.	J. Jordan, AG and F. Astacio,	9/84 IHCAFE
4.10. Farmers should be encouraged to prepay their interest and principal obligations, when possible, to help develop good financial discipline. Banks need to establish mechanisms to allow such prepayment.	J. Jordan, AG and F. Astacio, IHCAFE	On-going
4.11. The project should move away from extending credit in kind.	J. Jordan, AG and F. Astacio, IHCAFE	9/84
4.12. USAID should study the feasibility of increasing the size of the credit fund to allow for the expected continual expansion of the projects.	J. Jordan, AG	7/84
4.13. Studies should be made of the feasibility of linking the USAID supported Rural Technologies Project to the IHCAFE Small Farmer Coffee Project to research, develop, and finance small-scale coffee processing equipment to help the beneficiaries partially process their coffee.	J. Jordan AG and V. DeBeausset, OET	9/84

	Name of Officer Responsible for Action	Date Action to be Completed
4.14. Because of the financial problems many coffee cooperatives have had, it is not advisable to adopt an overall policy regarding membership, but rather to allow and encourage promotion in areas with already strong cooperatives.	J. Jordan, AG	Completed, 3/84
<u>8.5. Technology and Adoption</u>		
5.1. Extension agents need more support in the analysis of soils and fertilization. Each region will have a different soil map so the same fertilization cannot be recommended countrywide.	J. Jordan AG	Completed, 5/84
5.2. Incorporate better soil conservation activities into the program.	J. Jordan, AG and F. Astacio, IHCAFE	Completed, 5/84
5.3. Strengthen poor coordination between research and extension to assure the long run impact of the technical recommendations.	J. Jordan AG and C. Rivas,	On-going IHCAFE

11. Summary of Findings

13.1 Overall Institutional Capacity Within IHCAFE and Involved Banking Institutions

IHCAFE has improved its effectiveness in coordinating the technical assistance and credit activities after a somewhat slow and disrupted start. A major cut in its operating budget due to a drop in the price of coffee exports, and a change in higher administration, as the project was being initiated, caused considerable delay in the initial implementation stages. The budget cut resulted in a significant reduction in field staff just shortly after the project began. The change in higher administration also produced considerable uncertainty in the field. In addition, a decision by USAID to stop Project disbursements in May 1982 caused participating banks to stop processing loans and led to further chaos in the field. By the time disbursements were reinstated some of the field work had been set back by up to four months.

The second year of project implementation (1983) was more on schedule and IHCAFE's coordination of the nursery activities, technical assistance, and credit was more satisfactory. No major problems were identified in terms of Project coordination during the early 1984 field trips by the evaluation team. Some delay was experienced the end of 1983 in getting improved seed for some of the nurseries due to poor weather at the source but this is not expected to cause any serious problems, although it could make it more difficult to reach the optimistic goals for 1984.

When the evaluation was conducted, the reimbursement system through the Ministry of Finance and the Central Bank was not operating as expected. Significant delays were being experienced. These delays led to problems of adequate loan funds in the banks to finance both the investment and nursery loans that were being processed by IHCAFE field staff. The Central Bank, however, is currently sending a reimbursement request every month or sooner if the amount exceeds L.100,000. The previous problem has been thus resolved.

The foreign technical advisors in extension, credit, and mass communications have been an important input to the Project and have helped promote the program with farmers, field staff, and participating banks. They also have actively participated in the training workshops for extension and credit personnel.

When the evaluation was conducted, initial institutional links had been established between IHCAFE and PROMECAFE and a pilot area profile study was expected to begin soon. PROMECAFE was expected to take the lead on that activity and IHCAFE would provide some members of the design and implementation team. As of 7/84, the Comayagua region has been selected for the initial study and the research is being carried out.

The three participating banks in the Project have been able to handle the loan requests adequately. Funds have been scarce during certain periods of time because of the reimbursement problem mentioned previously. Cooperation and communication between IHCAFE field personnel and the bank credit officials seems to be very good. Of course, there is still room for improvement in coordinating credit processing activities.

6

Accomplishments with Respect to Extension Program

The Project Agreement contemplated an increase in the number of staff of the IHCAFE Extension Service, the division of responsibilities between credit agents and extension agents, and the development of new extension and farmer training methodologies to more effectively serve a large number of small farmers. The IHCAFE Extension Service had traditionally worked with a larger size farmer than is eligible for the AID/IHCAFE Project, and the predominant method was a one to one supervisory visit. While definite progress is being made toward the development and use of new extension techniques (especially group training and the use of farmer leaders and demonstration lots), the ability of the Extension Service to greatly increase the number of beneficiaries is limited by a cutback in personnel and a heavy workload in loan supervision by extension agents.

The progress made toward a reorientation of the extension methodology must be seen in light of the history of the Project. The first year of the Project was virtually consumed by the logistical problems of growing 3,000,000 healthy plants in participating nurseries so that field work could start in 1982. Extensionists spent the early part of 1982 promoting Project participation and learning about the formalities of the credit system. The work was seriously disrupted by the events as described in an earlier section.

Even with the problems of the first year, good progress has been made in developing an extension program which can work with the special problems of small farmers. Most significant is the beginning use of group training and demonstration plots. Plans also are being made to use leader farmers. Most notable for their absence are the use of radio or audiovisual aids, area profiles, and a uniform system of evaluation and development of course content (both for farmer training and in-service training). For the evaluators, the continued assistance of both the communications advisor and a short or long-term highly qualified and experienced advisor in extension methodology is imperative.

While it was not possible to interview a statistically representative sample of extension agents, it is apparent that there is a large degree of variation in capability of these agents among regions and among zones within regions. The success of this Project will depend heavily on a strong institutional commitment to continually evaluate the individual agent and bring the performance standards up to a more uniform level. Expansion of the Project requires a continued improvement of in-service training, better material and supervisory support for the extension service, and an increase in the number of field personnel.

13.3. Accomplishments with Respect to Credit Program

Four banks are participating in the small farmer coffee rehabilitation program. These are: BANADESA, the main public agricultural lending institution; BANHCAFE, a semi-autonomous coffee bank; Banco de Occidente and Banco Sogerin, private banks. As of 7/84, two other banks, Atlántida and BANHCASA, have expressed interest in participating in the project.

The involvement of the credit and extension agents in helping the farmers obtain credit along with their technical assistance has been an important

component of the Project. Most farmers are selecting the complete renovation model which requires considerably more capital investment to implement. As such, credit probably is highly desirable for them since many would not be able to make such an investment without credit.

Project borrowers with short-term loans for establishment of seedling nurseries are repaying well. Interest payments on the longer-term investment loans also are coming in on time. It is estimated that loan repayments are at the 90-95 percent level. Of course, few of the investment loans have principal due at this time so the true test of loan repayment will begin in two more years. However, field staff are very optimistic that with the expected high levels of production, loan repayments will continue to be high as long as coffee prices remain at current or higher levels.

13.4 Accomplishments with Respect to Technology Transfer

IHCAFE has done a good job in delivering technical instructions to farmers, and farmers have been highly receptive to participating and following instructions. The evidence of this is in the physical development of the technified parcels, which is excellent. Some farmers are reaping harvests of 3-5 quintales per hectare after 17 or 18 months from transplanting. For these farmers, the levels of productivity they will be achieving will greatly surpass the estimates used to calculate financial feasibility of Model I (complete renovation of old coffee fields). Annual production could be on the level of 5, 20, 40, 60 qq/manzana (years 1-4) rather than 0, 0, 15, 40 as predicted. Generally, farmers who plant an adequate number of improved plants and who provide continual care will be, technically, guaranteed good future production.

The problem is not whether farmers are following instructions, but rather: (1) are these instructions being revised, evaluated and fit to the individual needs of the farmer?, and (2) will the farmer become self-reliant in managing the technology?

Extension agents need more technical and economic support of their technical recommendations to assure they do fit the physical and economic conditions of the borrowers. As has been found in farming systems research in other countries, it will probably be necessary to identify a number of different technological packages which can more effectively fit the varied conditions and circumstances faced by the farmers.

14. Methodology

This was a formative evaluation. Evaluation activities were carried out during the period December 16, 1983 and January 26, 1984 by a team composed of one agricultural economist, one financial economist and a coffee expert. The agricultural economist primarily focused on extension activities and technology adoption and diffusion. His in-country work covered the period December 16, 1983 to January 13, 1984. The financial economist was largely responsible for evaluating the status of the Conditions Precedent and Covenants, the institutional development, credit activities and completing the final report. His stay was during the period January 3-26, 1984. The coffee expert, from PROMECAFE/Costa Rica, visited coffee farms to evaluate the technical aspects of IHCAFE's recommendations during January 6-9, 1984. The

PROMECAFE representative in Honduras also accompanied him on the field trip. A separate technical report was submitted by PROMECAFE to USAID Honduras but the conclusions have also been incorporated into the technical sections in this report.

The conclusions and recommendations of this report are based on the review of periodic IHCAFE reports, advisor reports, USAID documents and file intensive interviews with IHCAFE, bank, and USAID personnel, technical advisors, farmers, and other interested parties. Field visits were made to Paraíso, Danlí, Comayagua, Sta. Bárbara, Sta. Rosa de Copán, Trinidad, and S. Pedro de Sula. An attempt was made to visit farms representative of different cases, i.e., good technical success, technical problems, credit problems, leader farmers, very small farmers, larger farmers, old, young, etc. The results of the interviews served to point up many possible problem areas, and to highlight successes. The only real difficulty in the farmer interviews was to elicit any criticisms of IHCAFE, which could be expected. Most interviews with IHCAFE and banking personnel were held in private to gather as many honest and frank observations about the program as possible.

A random sample of loan files for 1982 and 1983 was drawn from the records in the Tegucigalpa office to provide information on borrower characteristics that was not readily available from the reports.

Even though considerable effort was expended to gather the most reliable and accurate information possible, the short period of time and limited resources available for the evaluation may lead to some erroneous findings, omissions, or incompleteness in some subject matter areas. Not all of the regions were visited which could result in some bias in the findings. Finally, loan records were not available for region 3 (Yoro) for 1983 so the sample on farmer characteristics does not include that region. Nor does the 1983 sample come from all loans made in that year since some of the more recent records had not yet arrived in the central office. However, the evaluators believed that these interviewing and data gaps did not seriously bias their main conclusions.

15. External Factors

As mentioned previously, the major external factor affecting the Project was the drop in Honduras' export quota along with a drop in the price of coffee about the time the project was being initiated. Some administrative changes also occurred during this same period of time. Both factors seriously delayed Project implementation in 1981-82 but IHCAFE has survived the adversity and when the evaluation was conducted the project was almost on schedule. During this initial volatile period there was talk that IHCAFE should be dissolved. However, the AID/IHCAFE Project has given the institution new life. No other man-made disasters have directly affected the Project or the production of coffee. The other important assumption listed in the Project Paper Logical Framework was that coffee would continue to be profitable relative to the production of other products. This assumption still appears valid since the coffee price has risen above the quite low price last year. If the price continues at this or a higher level, it appears the farmers will obtain good returns.

16. Inputs

The major inputs specified in the Project Paper were a credit fund, training for extension staff and farmers, purchase of vehicles and equipment, foreign technical assistance for research, training and credit, and evaluation/audits.

The credit fund, vehicle purchases, and foreign technical assistance disbursements are ahead of schedule (although research has not been supported to any great extent). The training of extension agents is moving ahead strongly. Farmer training is just beginning. Disbursement of funds for training has been less than projected in the Project Paper. The disbursement of funds for evaluation and audits are behind schedule but are now beginning to be disbursed.

17. Outputs

The proposed Project outputs, the indicators, and current status are summarized in the following table:

Outputs	Indicators (End-of-Project)	Status as of June, 1984
-IHCAFE's ability to help small farmers increased	3,000 new coffee farmers serviced	By mid-1984 about 1,988 new farmers had been helped.
	3,000 new farmers receive training	Same 1,988 have received training
-Technology improved	6,000 Mz using improved varieties	About 2,135 Mz using improved varieties
	6,000 Mz fertilized	About 2,135 Mz fertilized
	6,000 Mz treated for pests	About 2,135 Mz treated for pests
-Management by farmers strengthened	6,000 Mz under improved cultivation	About 2,135 Mz under improved cultivation
	6,000 Mz of coffee being pruned	Technified areas won't need pruning until year 5
	6,000 Mz under proper shade	About 2,135 Mz beginning shade program
	6,000 Mz at optimum plant density	About 2,135 Mz at optimum plant density
-Viable, self-sustaining credit system for small coffee farmers	By 1985, reflows begin to finance credit for farmers beyond original participantss	Reflows from nursery loans now beginning-- other reflows should begin in 1985

As can be seen, progress towards reaching the projected output targets is very satisfactory. Most of the end-of-project status indicators likely will be accomplished before the end of the Project. The one exception relates to plant pruning. It was estimated that 6,000 manzanas of coffee would be well managed using improved pruning techniques. Most of the Project participants have decided to completely renovate their 1 or 2 manzanas (Model I) financed by the Project (old coffee is completely destroyed and new planted). As a consequence, these new plants will not need pruning until after the indicated end of the project. Those few farmers that are using partial renovation (Model II) appear to be following pruning recommendations. This had affected about 260 manzanas of coffee by the end of 1983.

In summary, the program is progressing satisfactorily towards reaching the output levels planned by end-of-Project. It does not appear that any changes are needed in outputs to be able to accomplish the Project purpose.

18. Project Purpose

The Small Farmer Coffee Improvement Project was initiated with the signing of the Project Agreement in June 1981. The purpose of the Project is to mitigate the production impact of coffee rust, a fungus, on small farm producers in Honduras by assisting as many of them as possible to increase their yields and incomes so they can afford the required rust control measures. The Honduran Coffee Institute (IHCAFE) is the primary implementing institution and is responsible for providing technical and credit assistance. A credit fund was established through the Central Bank for the participating public and private banking institutions. It was expected that the Project would reach 3,000 small coffee producers in five years and would have considerable spread effects to others.

As stated in the outputs section, it is very likely that the Project outputs and purpose will be accomplished by the end of the Project (FY 86). The completely renovated coffee plots are generally in excellent technical condition and are beginning to produce at levels considerably above that anticipated at the start of the Project. Credit is reaching the Project participants and they appear very receptive to the technical recommendations. Two factors which might directly affect this outcome are the world price of coffee and the effectiveness of rust and disease control on the coffee adjoining the technified plots. The first factor is external and outside the control of the Project. The second factor is internal. Additional effort is needed to encourage farmers to control disease on the adjoining coffee so it does not jeopardize the new, technified coffee.

19. Goal

"To increase the incomes and quality of life of rural farm families while increasing national production."

20. Beneficiaries

The credit is reaching the target group as specified in the Project Agreement. The average farmer receiving technical assistance and credit for complete renovation (Model I), is about 40 years of age, has a total farm size of 15 manzanas (10.5 hectares), produces about 6 manzanas of coffee (4 hectares) with an average yield of 7.9 qq./mc, and is receiving about \$2,150

11

of investment credit per manzana (\$3,075/ha.). These farmers received an estimated \$4,178 in gross income (with considerable variability) in 1983, according to information obtained from a random sample of loan documents. About 1,839 loans for a value of \$5.3 million had been lent for investment (renovation) and nursery loans through the end of 1983.

Approximately 6% of the credit goes to farmers partially renovating their coffee (Model II). These farmers are considerably younger (average age is 28.6), have smaller farms (7.5 manzanas total and 5.1 manzanas in coffee, on average), and receive about one-half the gross income (\$2,233) of those applying complete renovation (Model I).

21. Lessons Learned

The major lessons learned in this Project would be: (1) the extreme importance of profitable technical recommendations to accompany credit, and (2) the difficulty of channeling funds through the entire financial system. The first factor may well be the most critical in making this Project more successful than past supervised agricultural credit programs for small farmers in many developing countries. In the longer term, the goal of strengthening the overall financial system by channeling funds through it is important. However, in the shorter term, the difficulties and delays of instituting such a system can have very serious impacts on a program being implemented.

22. Special Comments

None.